MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BEI2084 – INTERNATIONAL ECONOMICS

(All sections / Groups)

22 OCTOBER 2019
9:00 a.m – 11:00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **FOUR (4) pages** with **FOUR (4) Questions.**
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Students are allowed to use non-programmable scientific and financial calculators.
4. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) The first new trade agreement to come into effect in 2019 is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or CPTPP. It was known as the Trans Pacific Partnership until the US pulled out. The wide-ranging deal was salvaged by the 11 remaining members - Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore and Vietnam - and renamed. CPTPP now covers a market of nearly 500 million people and the economies included account for about 13% of the world's GDP. Importantly, it removes tariffs on an estimated 95% of goods traded between member countries. On 30 December, it will come into force for the nations that have completed their ratification processes: Australia, Canada, Japan, Mexico, New Zealand and Singapore.

Source: BBC News, 28 December 2018

If opening up free trade amongst member countries of CPTPP hurt people in import-competing industries in the short run but in the long run, when people and resources can move between industries, everybody ends up gaining from free trade. Comment on the statement with clear justifications.

(5 marks)

(b) South Korea government has imposed tariffs on imported laptop from China to protect their local industry from foreign competition. Given are the two equations of domestic demand and supply of laptop in South Korea:

Demand: $Qd = 270 - 10P$
Supply: $Qs = 30 + 30P$

where Q denotes quantity (in thousand units) and P denotes price [in Korean Won (KRW) thousand per unit].

i) If the world price is KRW5 thousands per unit and tariff of 10% is imposed, determine the change in imports of laptop after tariff?

(8 marks)

ii) What is the effect of this import tariff on Korean consumers and producers? Demonstrate and explain if this restricted trade is better than without trade?

(10 marks)

iii) By imposing tariff on laptop imports from China, the government earned tariff revenue. Determine the amount of the revenue.

(2 marks)

(Total: 25 marks)

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QUESTION 2

(a) In Malaysia, for example, expanding oil palm production creates demand for a lot of land and very few workers, whereas batik production requires many workers and not so much land. The only way the employment of labour and land can adjust to the available national supplies is for factor prices to change. The factor-price equalization theorem indicates that with free trade the real wage earned by labour becomes equal to the real rental rate earned by landowners. Is this correct? Provide an argument.

(9 marks)

(b) Assume that the output per hour of work is 8 kilos of almonds or 2 kilos of kiwis, and New Zealand has 2,000 hours of labour. Without trade, New Zealand evenly split its labour hours between almonds and kiwis.

i) Graph New Zealand's production possibility curve. Show the no-trade production point and consumption point as point A. Label your graph.

(4 marks)

ii) Suppose New Zealand opens trade with Malaysia, and Malaysia's output per hour of work is 1 kilo of almonds or 1 kilo of kiwis. Having the comparative advantage, New Zealand completely specializes in almonds. Determine how many kilos of almonds New Zealand can produce. Denote this point on the graph as point B.

(4 marks)

iii) Suppose New Zealand keeps 10,000 kilos of almonds and export remaining 6,000 bushels. If the terms of trade are 1 kilo of kiwis for 2 kilos of almonds, find how many kilos of kiwis will New Zealand get in exchange. Denote the graph the quantity of almonds and kiwis that New Zealand consumes with trade and label this point as point C. Compare point C with trade to point A without trade and briefly explain.

(6 marks)

iv) Comment if New Zealand producing and consuming on its production possibilities frontier when they open trade with Malaysia.

(2 marks)

(Total: 25 marks)

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QUESTION 3

(a) US President Donald Trump has shaken the foundations of global trade, slapping steep tariffs on billions of dollars' worth of goods from the EU, Canada, Mexico and China. The president has placed tariffs on billions of dollars' worth of goods from around the world, in particular China. He has imposed a 10% levy on $200 billion worth of Chinese products so far. In May, he announced plans to impose a 25% tariff on $325 billion of other Chinese goods.

Elaborate how protectionism in US is used to protect high wages and high standard of living for US working groups. Criticize how protectionism in US affects poor workers in less-developed countries.

(10 marks)

(b) Given below is the information of Hong Kong's international transactions during the year of 2017 and 2018 (in HK$ million):

Items	**2017**	**2018**
Exports of goods	487,133.1	587,972.1
Imports of goods	455,677.5	444,335.8
Exports of services	355,998.5	162,929.2
Imports of services	365,416.9	147,323.1
Income flows, net	-9,417.3	-13,721.2
Current transfer, net	-7,811.3	-6,550.4
Capital account, net	-542.9	-454.5
Financial account, net	-37,593.3	-8,003.5
Statistical discrepancy	5,103.8	-487.3

i) Calculate the values of Hong Kong's goods and services balance, current account balance, and official settlement balance in year 2017.

(9 marks)

ii) Determine the value of the change in official reserve assets (net). Justify if Hong Kong is increasing or decreasing its net holdings of official reserve assets.

(6 marks)

(Total: 25 marks)

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QUESTION 4

Global trade brings to mind images of sophisticated container ports, bustling rail hubs, modern superhighways, broadband Internet connections, and complex trade agreements. But trade is equally – if not more – important for the almost one billion poor people living on less than $1.25 a day, who struggle to connect themselves to trade opportunities.

Identify and elaborate **FIVE** advantages that international trade can have on economic development of a developing nation.

(Total: 25 marks)

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